

# Economic Policy Review

March - April 2005

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## Currency Board And Economic Development

Dimitar Chobanov

Sound money is one of the prerequisites for sustainable economic development. A great number of empirical studies prove that low inflation countries experience faster economic growth than high inflation countries. What is the reason for this? Sound money reduces the uncertainty about the future price development and hence it makes the choice easier. It enables individuals to realize the best allocation of resources and products. Apart from this, it allows correct comparison of prices and helps decision taking.

During high inflation periods the quantity of goods and services that can be bought with specific currency diminishes across the time. Hence, the purchasing power becomes smaller and persons that hold money balances actually become poorer. As a result from inflation, hidden income redistribution happens – from persons with fixed income to the rest.

Money soundness in Bulgaria was assured through the introduction of the currency board arrangement (CBA) in 1997. It caused considerable reduction of inflation and calmed the inflationary expectations. In practice, the monetary sources of inflation were eliminated – i.e. the opportunity for “printing” money dropped out because the issuing of Bulgarian lev is a result of higher money demand by the economic agents and does not depend on the central bank.

What are the consequences of this? The rates of inflation before 1998 were considerable and the average rate is 210%, while after that they are 7.5% on annual average. Therefore, there is a

significant stabilization in the value of lev and the inflation has gradually decreased (for example, it is 4.8% for the last three years). The inflationary tax rate that is a yardstick for the inflationary tax on holding money balances has also substantially fallen. For the period before the CBA introduction it is 57.7% and it is 6.9% afterwards.

These facts are indicators only for the direct effects of the sound monetary policy but we can compare the overall economic development during the two periods.

The main indicator that characterizes this development is the gross domestic product (GDP) growth. During 1990-1997 there was an annual average growth in GDP of about minus 4.7%, which was accompanied by even more considerable drop in investment by minus 8.8% per annum. After 1997, GDP growth has been 4.4% or the difference is 9.1 percentage points. There is also a positive change in terms of investment – its average growth has been 18.2%, which is a basis for higher economic growth. It is logical that the factors like privatization, market liberalization and other market-oriented reforms influence the GDP development but the basis for all of them was the currency board.

The impact of the CBA could be searched in the fiscal sector as well because this regime imposes hard budget constraints on any economic agent. One of its main elements is the prohibition for lending to the government by the central bank as well as the restricted lender of last resort function to the commercial banks. Thus, channels for inflationary money issuance like it happened before 1997 are blocked. The budget deficit was minus 6.3% of GDP per annum – a sum that was covered by the Bulgarian National Bank (BNB). Still state-owned commercial banks granted many loans to loss generating enterprises for employment maintenance

purposes and, in turn, were refinanced by the central bank. In the current situation it is almost impossible and after 1997 there is an average budget surplus. Thus the CBA is a mean for efficiency enhancement as it widens the personal responsibility and hampers the artificial maintenance of ineffective resource utilization.

Another indicator that is directly related to the budget deficit is the level of the government and guaranteed by the government debt. Here, the positive development is a result from the generally balanced budget, which suggests a decrease in this debt as well as the GDP growth. This is the explanation of the significant difference before and after 1997 of debt to GDP ratio – 168% and 65.9% respectively (during the last three years the average value is 48.3%). One should note the effect of buy-back operations of the external government debt that were made possible because of the foreign reserves accumulation, which is influenced by the currency board as well.

The bulk of foreign direct investment (FDI) indicates the perception of the country as a potential source of revenues by the external companies. Stability and predictability that are also effect of the CBA are crucial in this relation. CBA has provided full capital account liberalization that is a prerequisite for easier entry and leaving the market. In terms of FDI the difference between the periods is also large. While in the first one the annual average level of FDI is USD 233.7 million or 3 percent of GDP in the second it is USD 1253.4 million and 7.4 percent of GDP respectively.

Hence, the benefits emerging from the CBA are considerable and spread over the whole economy. Still, one should note that maintaining this regime is not an easy task.

In the current situation apprehension may arise provoked by the BNB policy towards credit growth. Recently, some measures have been taken for restriction of the credit expansion that not only have not accomplished the desired effect but also have even the opposite. According to the preliminary credits data in March there is a large growth exceeding the average levels for the last year. Thus, because of the attempts to restrict credits BNB forced the commercial banks to circumvent the regulations in order to have larger basis for granting loans.

There are no reliable data yet so it cannot be said if this circumvention falls within the regulation framework or there are some kind of illegal operations. If commercial banks have really broken the rules then the bank supervision will punish them but we have to remember that the initial source of disturbances in the system is the central bank itself.

The main reason for the restriction measures is that high credit growth may lead to a bank crisis. To address the problem BNB decided to slow down the growth to rates that are acceptable according to the central bank experts and do not threaten the system. But there has been not good enough communication to the public and BNB has not explained why the current rate is too high while their rate is correct.

Another problem emerging in relation to the BNB's policy is that because of the not really successful measures it loses the credibility in its capability to maintain the stability. This credibility is built during the last eight years and it is very important for the central banks all over the world. So, the central bank actions whatever they are should be directed to keeping and expanding this credibility.

As a conclusion we can say that the currency board is one of the best things ever happened to the Bulgarian economy and this is the reason why it should be maintained until the adoption of the euro.

**Table: Indicators before and after the introduction of the currency board**

Indicators	1990-1997	1998-2004
Inflation (%)	210.1	7.5
Inflationary tax rate (%)	57.7	6.9
GDP growth (%)	-4.7	4.4
Investment growth (%)	-8.8	18.2
Budget deficit (% of GDP)	-6.3	0.2
Government debt (% of GDP)	168	65.9
Foreign direct investment (USD million)	233.7	1253.4
Foreign direct investment (% of GDP)	3.0	7.4

Source: BNB, NSI, MF, and own calculations

## **The Social Security Burden is the Biggest Issue Before Business and Citizens**

Martin Dimitrov

Paying social security charges is considered to be the highest issue before business and citizens. This hypothesis has been confirmed and sustained in several research projects of IME and other NGOs ([link](#)). However for the time being the social security burden has not been recognized as an issue of high priority and therefore no significant reforms have been planned. The state owned 'National Center for Study of Public Opinion' revealed additional facts regarding the scale and the scope of the problem interviewing 800 working adults. According to this survey only 41% of employed in the private sector fully comply with social security payments, at the same time 22% declare to work without a contract. This actually means that 59% of employed in private sector at least partially conceal their incomes.

### Conclusions and effects:

1/ IME experience shows that when respondents are directly asked whether they comply or not to tax and social payments answers might be misleading because people are afraid to respond. For this reasoning I believe that the result of 41%, which fully pay social payments, might be overestimated and should be considered as upper threshold of compliance in the private sector.

2/ So I can generally argue that the scale of non compliance is huge. Currently, social security payments are the highest "tax" (42% of the gross wage) and imply the chief burden in environment. My argument to consider social payments as taxes is that there is no direct link between the size of payment and received services.

3/ For instance if firms pay profit tax and then tax on dividends (21% all together) they can afford paying higher net salaries and can save some money, which makes this option preferable for both employers and employees because the former lower their costs and the latter increase salaries.

4/ The important issue is what would happen if the government decision is to cut social security payments to 10%? If 90% of employees decide to comply revenues would decrease only twice while the social security burden cut is four times (this estimation relies on data from the survey of the 'National Center for Study of Public Opinion'). Besides, there would be strong positive effect on business activity that will increase the tax base and subsequently collected revenues. Environment would be inductive for higher economic growth and increase in employment.

5/ There are a lot of people in Bulgaria, which argue that social security cuts would not lead to improvement in tax collection. Their main argument is that it is a question of mentality not to pay taxes. However they miss the point that operating in the 'shadows' is expensive. Informal firms have worse financial standing before the banks, which increases the interest for financing activities. Moreover contractors and clients are also obliged to perform 'informal activities', because a firm cannot issue invoices for "inexistent operations". It is generally expensive to conceal incomes because it requires payments to highly qualified accountant and recruitment and maintenance of fake documentation. An informal firm should also consider the risk to be penalized by tax authorities, which comes to be an additional cost.

Informal operations influence the organizational structure of a firm. Managers and employers are personally involved in all stages of production because it is difficult to control without official records. It hinders specialization and flexibility. We should also bear in mind that informal operations exclude firms from receiving so-called public services like state contract enforcement.

The above reasoning gives me grounds to argue that firms (or at least the majority of them) will be willing to pay 10% social security payments and to formalize their activities because that will be less expensive than non-compliance.

The survey of the 'National Center for Study of Public Opinion' is an additional argument that

social security payments are the more pervasive and damaging burden in Bulgaria. Therefore prospective measures should aim large-scale

effects. All tailor-made shortsighted decisions will not be able to improve existing constellation.

### **Recent Libertarian Failures in EU “Relationships”<sup>1</sup>**

Krassen Stanchev

When speaking of failures, I mean first of all my own deficiency and lack of success in disseminating ideas I trust and/or in preventing bad ideas of being realized. Unfortunately, very often I realize that these are not only my failures. Before putting my thoughts black on white my intention was to have a relatively concise list of those failures. But then I realized that I do not have sufficient time and that two instances would be more than enough to describe a regularity.

Thus, I decided to focus on two Libertarian campaigns. One of those – on tax harmonization within the Union – is over, and it seems the Libertarian cause is victorious. The second is the debate on the EU draft Constitutional treaty. It is not over yet, and the Libertarian “camp” looks doomed to lose, irrespective of the speculations on the referendum in France.

#### ***Libertarians win the 2004 Tax Debate?***

After new member states formally joined the EU in mid-2004 and the old Europe realized that capital and jobs are likely to move east, a criticism spurred against lower tax rates in New Europe. We, libertarian think tanks were outraged and invested efforts to counteract Sweden and Germany government leaders’ views on how the Union taxes should be harmonized. We signed a petition, sent it to all Internet addresses we know, wrote articles in the local press, and talked the issue up on public gatherings. Friends from across the ocean raised their voices. Even OECD and Mr. Prodi (then head of the EU Commission) joined the choir and told PM Schröder and Chancellor Schröder to calm their harmonization ardor. Not before too long, the chancellor seems to have changed his mood to the opposite and instead of seeking

funny retribution (e.g. cutting Brussels subsidies) against freer newcomers announced his own plan to cautiously reduce corporate taxes.

Were the libertarians knocking on an open door? Why the victory happened to be so easy? Was the EU Commission more freedom loving than the governments of key member states or there was (still is) another constellation that enforces lower tax policy?

#### ***Libertarians fail preventing the adoption of EU Constitution?***

If in the tax harmonization debate the Libertarian efforts were both proactive and reactive, but the reactive element was more visible: libertarian thinkers had the theoretical argument before hand and it was relatively easy, with a little research and preparation, to formulate the messages, react to and ridicule Schröder/Person nonsense.

In the case of constitutional deliberations the argument is a little more complicated and threats and opportunities are not so immediately visible.

But the pattern was similar; the Libertarians had an alternative constitutional vision for year many years before the Draft Constitutional Treaty was made public and advertised. If I am not mistaken, the first Libertarian draft alternative to what we have now as EU constitutional text was ready as early as in 1993. And this is the famous proposal for “A Basic Constitutional Treaty of the European Union”, which was put together by the European Constitutional Group.<sup>2</sup>

It was updated and made public even before the government draft in mid-2003. Some of the best Libertarian minds<sup>3</sup> were involved in the

<sup>1</sup> A speech before the Libertarian International European Conference, Sofia, 2- 3 April 2005

<sup>2</sup> See: European Policy Forum, London, December, 1993

<sup>3</sup> Members of the Group were: Prof. Peter Bernholz (Basle), Prof. Charles B. Blankart (Berlin), Prof. Francisco Cabrillo (Madrid), Dr. Detmar Doering (Potsdam), Prof. Jacques Gareilo (Aix-en-Provence),

updating and virtually the entire community raised its voice against the product of the so-called European Convention for the Future of Europe. The message was reasonable, straightforward and, presumably, leaving no doubt that the politicians' draft should, at best, be sent back to the drawing board.

As of today, there are about 1.8-1.9 million publications on new EU constitution. Obviously, it is impossible to have a sense from all these publications but with a little bit of reading one can review the professional comments. I have not seen any wholly glorifying professional publication about the text parliaments are already ratifying and voters are going to approve/disapprove in different referenda.<sup>4</sup>

Members of the abovementioned European Constitutional Group were also published. But their opinion is almost completely lost in the ocean of glorifying press. As far as it is possible to judge from a distance, reasonable opposition is visible in the British newspapers. EU sponsored Euronews TV has a completely non-critical attitude.

In the new member states, again to the extend it is possible to judge, their politicians, leading observers, press and TV compete in the propaganda for the Constitutional Treaty. Lithuanian Parliament was the first to ratify it; other New Europe countries, including the most

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Dr. Habil Lueder Gerken (Berlin), Prof. Kristian Kirchner (Berlin), Dr. Elena Leontieva (Vilnius), Prof. Angelo Petroni (Torino), Prof. Joachim Rueckert (Frankfurt am Main), Prof. Paskal Salin (Paris), Prof. Friedrich Schneider (Linz), Dr. Jiri Schwarz (Prague), Peter Stein (Stockholm), Prof. Roland Vaubel (Manheim), Frank Vibert (London), and Jan Winiecki (Frankfurt am Oder).

<sup>4</sup> I think that a referendum on such a vast and vague text is in itself an attempt to manipulate public opinion. By the way, the process of drafting and popular voting resembles that of Kyrgyzstan: very few could read and understand the text, opposition is out-published and 2001 amendments gained 90% popular approval. The difference is that Kyrgyz Constitution (the preamble actually voted) says literary: "We, the people of Kyrgyzstan... recognize the priority of the rights of man over government institutions". There is no single sentence in the EU constitution that so clearly defends the individual. This and similar statements in the Kyrgyz Constitution are just statements and no more than statements. There is a fair chance that the statements of EU constitution will be implemented.

Libertarian Estonia, would follow soon. Libertarian in Vilnius, at some point decided not to comment at all on the EU Constitution.<sup>5</sup>

Bulgarian Prime Minister – everybody knows the country is yet no member of the EU – rushed to sign the Draft Treaty along with heads of the member states. There was only one publication in the Bulgarian press.

### ***Is the Public Opinion Anti-Libertarian?***

For personal reasons, I would like to avoid firm answer to these entire questions. I myself witnessed too many failed Libertarian initiatives and political parties.

#### **Different revenue, different opinion**

The "harmonization" debate was on the direct taxes on corporate and individual income. It is more the national governments financed through them, not the EU international government - it lives from indirect taxes. "Sanctions" against lower direct taxed could jeopardize collection of all taxes.

This help winning the tax debate, and this explains the emphasis of the Draft Constitution on indirect taxes.

#### **Stupid ideas are (sometimes) difficult to enforce**

On the other hand, no sanction on "lower tax-rate" states could have been feasible and effective (if the objective was to stop enterprises emigrate east). Even if New Europe were to increase taxes the capital could move further east or elsewhere, to non-member countries<sup>6</sup>.

On the other hand, the governments are doomed to collect fewer taxes due to different forces at work: a) electronic money and electronic execution of transactions, b) individualization of processes, influences and technologies, c) diminished role of taxation and state, d) increased mobility of factors of productions, and e) flexibility of skills and strategies.

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<sup>5</sup> The irony of the history is that the actual ratification took place at the very same day when European free market think tanks discussed in Vilnius Hayek's views on spontaneous order.

<sup>6</sup> In fact members of EU are states, not people who form countries; people are rationally ignorant about the EU – and this ignorance is revealed again and again by public opinion polls and elections for the European Parliament..

All these factors helped the anti-harmonization attitude towards taxes, but they also motivate a search for substitutes, by Brussels government, national politicians and political parties and by rent-seeking groups in general. The worrying feature of EU law enforcement is that it works. It is almost certain that any silly constitutional provision might be implemented by the courts and administration. The European Court of Justice has already found that in certain contexts economic goals are secondary to social goals, as it has happened in relation to the CASE C-50/99 Deutsche Telekom v. Schröder.

#### Libertarian optimism?

There is an optimistic worldview that could stem from the constellation of above factors. It would claim that, currently, the world is at a turning point in the history, perhaps; that it is not well recognized but is fairly visible. There is a belief that resources for big government projects seem to evaporate. Also, it might be argued that states loose ownership rights over citizens, and their lives due to the decline of state run healthcare and pension systems across the globe.

In fact, however, there are counter-currents. Evil-meaning individuals and groups could easier than destroy life. Physical and national security threats, real or imaginative, reinforce “justification” of big government. And supra-national, like that of the European Union, governments substitute national representative establishments, transferring responsibility to the Unknown, to entities that individuals prefer to be ignorant about.

The public rational ignorance is a key reason for many reasonable, not necessarily only Libertarian, initiatives to fail.

#### Difficult coalitions

If we trust Olson’s “Logic of Collective Action”, special interest groups are better at organizing than larger groups of individuals, be they tax payers or consumers. The smaller collective groups gain easier from government intervention since costs are borne by a larger group.

One explanation of 2004 libertarian victory over taxes is that there was massive constellation of individual group interest that for decays sought privileges and subsidies financed ultimately from a rather different source, by quasi-tax and regulations.

#### *A quid pro quo: the growth of regulations is the actual power*

The combined compliance costs of EU member state registered firm (i.e. costs of operating in accord with the laws and regulations), in 2002 were Euro 540 billion (4.5-5% of GDP).<sup>7</sup>

Detailed rules and regulations tend to spread more often and faster than more abstract, simple and experience-based ones that allow for wider variety of choices. The destructive impact of this tendency was anticipated by Hayek.

#### **Growth of EU regulations (rounded to thousands)**

Year	Cumulative number of regulations
1975	10,000
1979	20,000
1984	40,000
1988	60,000
1994	80,000
2000	100,000
2004	110,000

Source: House of Lord

There is a tendency of a steady widening of regulatory objectives (referring to risks for the public, consumers, “social dumping”) and for creating an over-regulation.

Regulatory choices are made as a result of complex bargaining between interest groups and compromises between government strata that fail to meet any common sense costs benefit standards.

#### **Factors influencing Libertarian Failures**

	Supports or counteract the adoption of the Libertarian argument in the tax harmonization debate	Supports or counteract the adoption of the Libertarian argument in the constitutional debate
Indirect Taxes Revenue	Supports	Counteracts
Enforcement	Supports	Counteracts
Optimism	Counteracts	Supports
Coalitions	Counteract	Counteract
Regulation growth	Counteracts	Supports

<sup>7</sup> See: SIGMA (OECD), Improving policy instruments through impact assessment, Sigma paper No. 31, 17 May 2001, p. 40



## Why Bulgaria State Gazette is Not Available on Internet?

Krassen Stanchev

In April, the Parliament of Bulgaria adopted amendments to the regulations of the State Gazette. It is expected that public procurement tenders will be available on the Gazette website and that it would save time and effort both for the government and interested suppliers. According to different estimates, GOB buys products and services that amount to 13-16 of GDP; in some sectors of the Bulgarian market it is above 50%”, said a company manager interviewed by us. This is the case in pharmaceuticals (65%) and software (50%).

The new practice would not solve the publicity of criteria and other accountability problems of the public procurement. But the amendment allows up speculating on the issue, raised in the title: why not putting the entire Gazette on Internet if this is possible for a part of it?

By all accounts, Bulgaria is heading towards formal membership in the EU. Presumably, the government of Bulgaria (GOB) should be already informing citizens on both domestic and EU laws and regulations.

The body of law is expanding.

### Cumulative number of EU regulations

Years	1975	1983	1989	1994	2000	2003
Regulations	10,000	40,000	60,000	80,000	100,000	140,000

Source: House of Lords

But the GOB is one of the few in Europe that still does not provide for free access to normative acts that govern the country's life and published in the State Gazette.

Prices for electronic versions of the State Gazette are prohibitive: BGN 6,010. If the active, business and non-profit Bulgaria-registered corporations are 300,000 (according to NSI criteria, i.e. those that pay taxes) and if they decide to subscribe they would need to spend BGN 1.8 billion. (This amount would equal to 4.75% of GDP.) This is not happening. Three companies have full subscription and then

resell the State Gazette at an average price of BGN 1,000.

Key EU member states avoid such unnecessary costs.

### State Gazette in Selected EU Countries

EU and countries	Responsible / disseminating agency	Internet access	Charge
EU	General directorate	Full access	None
Sweden	Justice ministry	Full access	None
Austria	Private company with government participation	Full access	None
Hungary	Private company with government participation	Full access	None
Czech Republic	Ministry of interior	Full access	None
Estonia	Government publishing house	Full access	None
Ireland	Government agency	Full access	None

Source:

<http://forum.europa.eu.int/irc/opoce/ojf/info/data/prod/html/gaz1.htm>

In the UK, Her Majesty's Stationery Office (operating as part of the Cabinet Office under the ministerial control of the Minister for the Cabinet Office) publishes laws and regulations on Internet and, like in most if not all OECD countries; this publication is free of charge and legally binding. In other words: legislation published on the Internet carries the same official status as the printed version<sup>8</sup>.

In Bulgaria the situation is just the opposite: only paper versions are legally binding and legislations is by no means available free of charge. This causes additional and reoccurring costs of paper work and bureaucracy. April 2005 amendments to the Bulgarian State Gazette Law

<sup>8</sup> In UK, this status of the Internet publication of bills and regulations was established in 2002.

(which are to be enforced on May 1) failed to change this constellation.

Obviously, besides the obvious benefits of the provisional reform, it is not taking place by itself. The reason is simple: special interest groups are better at organizing than larger groups of individuals, be they tax payers, businesses or consumers; the smaller collective groups gain easier from government intervention since costs are spread and borne by

a larger group. At the same time, the reform is far from trivial: it should involve all normative acts of central and municipal authorities and the so-called “unofficial section” of the State Gazette (corporate registration and announcements, public procurement offers, citizens status, etc.) and the functions of respective registries (or their pending reforms). On the other hand, however, all these would benefit from the reform.

### **Invest and the State Will Protect You**

Svetla Kostadinova

This Friday (April 22) the Bulgarian Parliament approved on second hearing the Amending Act to the Public Offering of Securities Act. One of the proposals was the creation of a Fund for compensation of investors in securities. The purpose of the Fund will be to “*guarantee the customers’ assets of investment intermediary up to 40 000<sup>9</sup> leva by client. Customers’ assets according to this law include cash, securities and other assets of the investment intermediary, gained by as result of its activity, including interest payments, dividends and other payments, made in relation to securities, and which the investment intermediary company should give back to its customers in accordance to the law and contracts*”(art. 776, paragraph 1 and 2). In order to do this, each investment intermediary company that holds clients’ cash and securities and for whom therefore can arise obligations, is obliged to make money payments to the Fund. These are affiliation and annual payments by the intermediaries, income from investing of these funds, as well as other sources as loans, donations and foreign aid. The control over the Fund is supposed to be exercised by the National Audit Office.

What is happening? We have investors that have liquid capital and decide to take certain risk and invest. They choose investment intermediary company, read the company rules, agree on them, sign a contract and deliver the money for acquiring certain stock.

The establishment of such Fund can be interpreted as following:

1. It appears that at the moment there are investment companies that are risky enough to provoke such reaction from the state. We have seen misleading advertisements of intermediaries that expect and/or promise unrealistically high returns. This obviously cannot be possible and therefore each investor assess for himself if one intermediary is reliable enough. The state is trying to intervene in area where by presumption the prognosis and speculations are part of existence. Good analysis, weighted risk, professionalism and publicity are enough to judge whether the investment is risky for an investor.
2. According to the draft law, the guaranteed “*Customers’ assets [...] include cash, securities and other assets of the investment intermediary*”. It is getting more interesting. It appears that investor who ordered to his intermediary to buy certain stocks and they are written in intermediary’s liabilities (they include clients’ securities and liabilities on clients’ cash) can, in case of insolvency, be paid off by the Fund, up to 40 000 leva per investor. In regards to cash that is included in the definition of clients’ assets, the question is for this little time period for transforming one asset in another (money in securities or securities in money). When one investment company has the possibility to fulfill its obligations. In relation to securities – it sounds really disturbing because they are written on the name of

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<sup>9</sup> Equals to 20 452 euro.



## **Institute for Market Economics, Bulgaria**

particular stockholder (he/she owns depositary note) who can always change its investment company ones he buy shares.

3. Payment of affiliation and annual fee (0.5% by the clients' assets for the last year, calculated on monthly average base) by all investments companies can lead to temporary liquidity problems.

The idea for creation of such Fund is very similar to principle of existence of Deposit Insurance Fund in Bulgaria. As IME has stated many times, the existence of such guarantee distorts the incentives for involved institutions to do their job properly. When such "protective" mechanism is in place we are witnessing a situation when some investment companies that are not so successful in their activity manage to attract clients with more tempting returns, but more risky too. Thus, it is obvious that the risk of insolvency of such companies is greater and they benefit the most from such guarantee. This is called moral hazard. Also, there can be extreme cases where unscrupulous investment

companies can do a deal with false clients that can lead to insolvency and therefore using guarantee payment from the Fund. Similar to IME proposal for reform of Deposit Insurance Fund, something alike can be made. Namely, insurance of investment intermediary's activity by big insurance company, preferably foreign owned, that will review their work at least annually and will judge for the risk.

The idea of the Government to copy one to one the model of the Deposit Insurance Fund is based on the wrong perception of incentives for investment and saving. Investment, opposite on saving, is purposeful risk taking in order to gain certain returns.

And finally, the motives, attached to the draft law say that creation of such Fund is in accordance with EU Directive 97/9. However, we can assert that these changes can be interpreted as another example of state intervention in one sector that works properly and has witnessed no shocks until now.

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